6

APPENDIX 6

Summary of False Statements by UBS

Date	Analyst/ Recommendation	Additional False Statements
5/18/99*	Capek Strong Buy	HRC: INITIATING COVERAGE WITH STRONG BUY ... Summary: We have initiated coverage of HRC with a Strong Buy. In our view, current valuation ... combined with HRC's scale, service menu, track record, balance sheet, and free cash flow help distinguish it as one of the better risk/reward profile investments in health care.... Highlights: • HRC scores four out of four in our Investment Mantra. Our investment framework for all health care services centers on four criteria: (1) organic growth, (2) balance sheet integrity, (3) franchise value, and (4) business model. HRC scores high marks (if not the highest) across all four categories. • Poweful [sic] cash flow and organic growth engine. HRC has been in acquisition mode for the past few years. Given its market position and ability to deliver 8-10% organic top-line growth, we expect HRC to harvest cash, prudently allocate capital ... and deliver 15% annual EPS growth.... For 1999, we expect HRC to generate $0.57 per share ($250 million) in free cash. * * * Analysis: Investment Thesis Our investment thesis on HRC centers on strong organic growth, supported by service breadth, a sound cost structure, proven operating acquisition track record, and strong cash flow and balance sheet.... In addition, we highlight the following points in support of our investment argument: * HRC's Business Model Remains Well Intact. Despite HRC's share price performance and near-term pricing issues, HRC has continued to deliver top line growth and also sustain its cost structure. We argue HRC's leadership positioning in many of its markets and its sizable quality asset base (and ensuing insurance/payer contracts) have been overlooked. HRC's critical mass of assets is rooted in secular growth areas of health care (rehabilitation and outpatient services). * HRC's Scale and Scope Provide A Real Competitive

		Advantage. HRC's asset base has taken nearly 10 years to develop through solid organic growth and strategic acquisition. Based on availability of assets and access to capital, this base is neither quickly or easily duplicated. * * * * Medicare Reimbursement – HCR is neither a hospital nor a long term care provider. Still, it is often categorized as each when it comes to Medicare reimbursement worries. HRC continues to grow its non-government business and maintain an operating cost structure that should enable it to weather any structural changes to Medicare. Moreover, HRC is not directly exposed to long term care prospective payment (PPS). For hospital-based outpatient PPS (expected for April 2000 at the earliest), HRC's exposure should be limited to its four acute care hospitals and its outpatient rehab and surgery business. We note that HRC's outpatient rehab and surgery business derives about 10% of net revenue from Medicare and these businesses are already essentially operating under fee screens, which limits HRC's exposure to any potential changes in co-payment levels. In short, relative to hospital and other providers, HRC should well-manage through outpatient PPS. Moreover, given current share price levels and investor expectations, the worst-case operating scenario appears to be somewhat well-reflected in today's valuation. * Investigatory Activity in the Sector – Since the early 1990's, the health care service sectors have been to [sic] focus of an investigatory "call to arms" by the Attorney General and the Office of the Inspector General (OIG). HRC has not been the subject or focus of any investigations. We argue this risk is somewhat undiversifiable across health care. Still, by examining where the government has enjoyed success in proving fraud and abuse, investors can limit this systemic risk. HRC screens well in this regard. HRC continues to limit its exposure to Medicare, actually save the government money, maintain high-quality well capitalized assets and professionals, and operate one of the more comprehensive employee awareness and fraud and abuse compliance programs in health care. ... Stock price weakness related to reimbursement concerns and hospital/long term care sector volatility should be viewed as buying opportunities for HRC.
6/4/99	Capek Strong Buy	[Projecting 1999 EPS of $1.11, 2000 EPS of $1.30.] REITERATING STRONG BUY, DISPELLING SOME NEAR TERM MARKET CONCERNS Summary:

		We wish to focus investor attention on HRC's operating trends, underscore our investment thesis, and dispel a bit of what we perceive to be market misperception. Operating results continue to trend favorably, and we remain focused on the sequential earnings progression and momentum we foresee in 2H99 and into 2000. Our concerns with respect to government reimbursement issues are minimal; this view is based on HRC's non-government reimbursed business development and comprehensive asset base, as well as on the company's low cost structure and specific type of Medicare business in which it participates.... We believe investors should aggressively build positions now. Our 12-month price objective is $20. Highlights: • HRC is one of the best positioned health care service providers, in our view, with a unique asset concentration and business model focused on rehabilitation and outpatient services. Given minor business mix issues and broader health care operating volatility and reimbursement concerns, we believe investors have overlooked HRC's market positioning, operating strength, and cash flow generation potential. • We focus investor attention on projected 2H99 and early 2000 earnings results. We believe this EPS progression and potential for upside momentum should be both the catalyst for stock price performance and the evidence needed to allay investors' near term business concerns. • We recommend aggressive purchase of the shares of HRC today, based on the company's cash flow generation, solid business model, and relatively strong organic growth trends. * * * • Investor Expectations for Growth Appear to be Muted. We believe current valuation should provide investors with limited downside exposure. In fact, after discounting our 1999 proxy for after tax cash flow at HRC's weighted average cost of capital (WACC), which assumes a zero growth state in perpetuity, we arrive at roughly 65% of current equity value. In other words, only 35% of today's share price reflects the present value of future growth opportunity, in our estimation. We believe this should allow for upside stock price potential based solely on HRC's ability to meet current earnings expectations.... Analysis: INVESTMENT THESIS:

		Our investment thesis on HRC centers on strong organic growth, supported by service breadth, a sound cost structure, proven operating acquisition track records, and strong cash flow and balance sheet. HRC's asset base has taken nearly 10 years to develop through solid organic growth and strategic acquisition. Based on availability of assets and access to capital, we believe this base is neither quickly or easily duplicable. In our view, HRC owns the model in rehabilitation and outpatient services. Despite conservative expectations of essentially flat year-over-year earnings growth, we focus our expectations for the sequential earnings ramp-up and the potential for better than expected results in 2H99. HEALTHSOUTH scores well across our investment mantra, possessing (1) organic growth, (2) balance sheet integrity, (3) franchise value, and (4) a viable business model. Although HRC's near-term pricing and business mix issues (along with broader health care sector jitters) could continue to fuel near-term trading volatility, we recommend purchase of HRC's shares for investors with time horizons of greater than six months. In addition, we highlight the following points in support of our investment argument: Powerful cash flow and organic growth engine. HRC has been in acquisition mode for the past few years. Given its market position and ability to deliver 8-10% organic top-line growth, we expect HRC to harvest cash, prudently allocated capital (including share buy-backs), and deliver 15% annual EPS growth. For 1999, we expect HRC to generate $0.58 per share ($250 million) in free cash. This roughly a 4% cash yield. * * * Based on the improvement in the managed care business and pricing cycle, as well as on HRC dominant asset base, we expect 1998's pricing trends to be short-term, with price stability (and perhaps some of the business lost from attrition) returning in late 1999 and 2000. This, combined with a favorable 2H99 earnings progression should provide the catalyst for stock price performance, we believe. Perceived Medicare reimbursement risk. HRC is neither a hospital nor a long term care provider. Still, it is often categorized as either when it comes to Medicare reimbursement worries. HRC continues to grow its non-government business and maintain an operating cost structure that should limit its exposure to any Medicare reimbursement changes. HRC is not exposed to long term care prospective payment (PPS). For

		hospital-based outpatient PPS (expected for April 2000 at the earliest), HRC's exposure should be limited to its four acute care hospitals. We note that HRC's outpatient rehab and surgery business derives about 10% of net revenue from Medicare and these businesses are already essentially operating under fee screens. In short, relative to hospitals and other providers, HRC should well-manage through outpatient PPS. Moreover, given current share price levels and investor expectations, we believe the worst-case operating scenario is somewhat well reflected. Finally, in response to questions in the marketplace, we as a research team would like to clarify our position on HRC stock. There seems to be some confusion regarding Geoff Harris' current opinion on HRC relative to his published research opinion at his former employer. (We believe this confusion stems from an event in late 1998 when a lowering of Mr. Harris' estimates surprised the company and created a tremendous flow of incoming phone calls. Mr. Harris has apologized to the company for not concurrently informing them of his change in forecast.) Since starting employment with Warburg Dillon Read, Mr. Harris, in addition to assuming the role of global head of health care research, has narrowed his coverage to the managed care universe, and no longer covers health care service providers. Howard Capek, upon starting employment with WDR in May, covers the specialty and non-hospital health care service providers, which includes outpatient and rehabilitation service providers. Mr. Capek reinstated coverage on HEALTHSOUTH with a Strong Buy rating on May 18, 1999, and Mr. Harris, along with the entire healthcare research team, supports his recommendation. Please see our 18 page research report dated May 18, 1999, for company details and Mr. Capek's current outlook for the company. All questions regarding HEALTHSOUTH should be addressed to Mr. Capek, who has been covering HEALTHSOUTH since 1994.
2/11/00*	Capek Strong Buy	We are reinstating coverage on the leading U.S. rehabilitation and outpatient provider. Despite operating pressures, HEALTHSOUTH has maintained its business model and financial integrity. We believe the current valuation offers a unique long-term buying opportunity. * * * • **Scale and structural integrity**. It is difficult to find an asset based comparable to HEALTHSOUTH's, despite its business downturn. This should support core business growth and other potential opportunities.

		• **Timing is everything**. Stabilizing industry trends, combined with HEALTHSOUTH's operating measures and fiscal prudence, should allow for sequential momentum and marked year-over-year improvement in the second half of 2000. Such a scenario recently benefited the hospital sector, and should hold promise for valuation of HRC shares, which are trading at 4.8 times our 2000 EV/EBITDA forecast. • **Cash is king**. HEALTHSOUTH repurchased roughly 36 million shares and preserved its capital structure in 1999. We believe it can generate $220 million in free cash flow in 2000. Cash collection improvement should drive investor confidence in cash flow forecasts. Executive Summary We are reinstating coverage on HEALTHSOUTH Corporation with a Strong Buy rating. HEALTHSOUTH is the largest integrated rehabilitation and outpatient service provider in the United States. Despite (mainly industrywide) issues and trends that have depressed earnings and contributed to operating volatility, we believe the company has smartly maintained its value-added business model and investment-grade balance sheet. Moreover, during this period of operating volatility (which began in late 1998 and accelerated in mid 1999), we believe investors have overly discounted organic growth and cash flow potential from an intact asset and service platform that has taken roughly 10 years to create. **Our eyes are on DSOs and cash collections** On the topic of cash flow, we believe the most discouraging trend that has impacted the stock for the past seven quarters is a lengthening of account receivables. The cash tied up in working capital has similarly been the most negative contributor to cash flow. To this end, we believe *improvement* in days of sales outstanding, or DSOs (which stood at 100 days at the end of the third quarter), will be the biggest catalyst for stock price performance, regardless of any range of 2000 forecasts for EBITDA or operating cash flow. We estimate that each one-day change in DSO equates to roughly $10 million in cash flow. Our 1999 EPS estimate is $0.83, versus reported EPS of $1.09 in 1998. (Our fourth quarter estimate is $0.15, versus $0.27 a year ago, and it should be the company's most difficult comparison.) Our 2000 EPS estimate is $0.66, based on our net revenue and EBITDA forecasts of $4.11 billion and $1.09

		billion, respectively. Our 2001 EPS estimate is $0.77, based on our net revenue and EBITDA forecasts of $4.31 billion and $1.17 billion, respectively. **We expect sequential operating momentum and year-over-year improvement in second half 2000.** We believe investors should build positions now, in anticipation of operating improvements and in light of relative valuations and near-term catalysts that should limit downside exposure. HEALTHSOUTH has continued to invest in its businesses, to improve its operating structure, and to maintain its balance sheet (buying in shares and reducing debt) during a business downturn. By the second half of the year, operating comparisons should more readily demonstrate year-over-year improvements and sequential operating momentum – a scenario the broader hospital sector is currently benefiting from, and one that we believe should benefit HEALTHSOUTH in the second half of 2000. Investment Thesis **Improving asset efficiency and a stabilized cost structure drives cash flow.** Our investment thesis on HEALTHSOUTH centers on the company's relatively solid organic growth, supported by its scale, comprehensive service breadth, sound cost structure, and strong cash flow and balance sheet. In our view, this platform should drive improvement in asset efficiency (organic top-line growth with relatively little new investment) *and* operating margin (improved collections, purchasing leverage, and recapture of market share). Although pricing and utilization issues should continue to fuel near-term volatility, we believe this is well reflected in current valuations and our lower than consensus forecast. In addition, share repurchases, debt paydown, relative hospital sector valuations, and improved collections could provide near-term catalysts for the shares. We reiterate our Strong Buy rating and have a 12-month price objective of $11. **HEALTHSOUTH is weathering a storm largely induced by broader healthcare industry trends.** In our view, operating pressure has been mainly driven by broader managed care and hospital sector trends (commercial pricing cycles and Medicare hospital outpatient prospective

		payment system or PPS uncertainty). For HEALTHSOUTH, these trends have helped induce managed care pricing pressure in inpatient *and* outpatient rehabilitation, adverse mix shift, volume growth slowdowns in outpatient rehabilitation and surgery, extended receivables, and labor and wage rate pressures. We expect that sector trend improvement (which has already begun from both the commercial and Medicare perspective) – combined with HEALTHSOUTH's service platform, restructuring and site consolidation, collections focus, and fiscal discipline – should state a second half 2000 rebound in earnings and growth. Operating Highlights • **Asset base and scale equals growth.** HEALTHSOUTH's $7.4 billion invested capital base reflects roughly 2,000 facilities, purpose-built over the past 16 years for rehabilitation and outpatient services. Having heavily invested in acquisition and internal development for the past three years, the current business downturn has enabled the company to retrench and restructure operations. As its business cycles stabilize, HEALTHSOUTH should emerge to internally fund its growth *and* harvest cash. In our view, this scale also strongly positions the company to develop opportunities in areas such as healthcare online, purchasing, cancer care and disease management, in addition to the secular growth in its core business and not reflected in current expectations. • **A cash flow engine.** We expect HEALTHSOUTH to generate operating cash flow of $640 million and free cash flow of $220 million in 2000 (a 9.8% yield on current share price). Imbedded in our forecast is modest top-line growth (4%) and operating margin of 26.5% (down from 30% in 1999). Given the point at which we believe the company is relative to broader industry cycles, we view our forecast as conservative. Asset efficiency improvements (incremental revenue or improved collections) could drive better than expected cash flow and, in our view, will be the key to establishing investors' belief in any cash flow forecast. • **Cash collection is key.** We estimate that average DSOs for the sector have increased by 25% since the first quarter of 1998. HEALTHSOUTH experienced a similar trend, and generally maintains a higher DSO level than hospitals, mostly because of a higher percentage of outpatient and private pay mix. Over the past nine months, the company's collection efforts have focused on leveraging electronic submissions

(including the recent alliance with Healtheon/WebMD) and pushing commercial collections (and new contracting) to the local level. Local-level accountability should begin to yield DSO improvement in the fourth quarter of 1999, while broader electronic initiatives should ramp up and bear meaningful improvement by the second quarter of 2000. We estimate that each one-day improvement in DSOs frees up roughly $10 million in working capital (cash).

• **Restructuring business lines.** HEALTHSOUTH has restructured its outpatient services under one management line, split by region down to the local level, rather than by individual services (i.e., rehab, surgery, diagnostics, occ-med). In our view, the organizational restructuring can generate cross-utilization and foster greater local-level accountability, potentially driving better than expected revenue and margins by late 2000. At some point, this structure should also allow the company to better assess noncore or outlier assets that could be sold to local-level operators (hospitals).

• **Inpatient rehabilitation PPS is manageable.** Long an area of uncertainty for the sector, Medicare's shift to a PPS for inpatient rehabilitation is less onerous than originally believed. The PPS (based on an episode or case) should begin its three-year phase-in this October, with rates scheduled to be published in March. Using our estimates for the industry's average cost per case ($12,500) and for HEALTHSOUTH's ($10,100), we believe that rates based on 98% of the average industry cost should, barring execution risk, allow HEALTHSOUTH operating flexibility and even an opportunity to leverage cost structure and relatively strong volume into earnings.

Valuation: Limited Downside, Meaningful Upside

The shares of HRC are trading at $5.00 per share, which implies a multiple of 4.8 times our 2000 EV/EBITDA forecast. This compares with a broader hospital sector average group valuation multiple of 7.2 times our 2000 EV/EBITDA forecast. We argue that this 33% discount to the peer group valuation is unwarranted, given HEALTHSOUTH's asset base and delivery model, cash flow potential, and relative payor mix profile. Until cash collections improve and operating margins stabilize, such a discount should persist. We believe that these benchmarks are close at hand. Moreover, we believe that improving industry trends in commercial pricing and the broader hospital outlook for outpatient PPS could provide stability for HEALTHSOUTH's business in the second half of

		2000. In our view, such a development, combined with nearer-term potential catalysts of receivables collection improvements, share repurchases, and cost-savings or revenue growth opportunities that capitalize on HEALTHSOUTH's asset base, should drive stock price appreciation. **Near-term catalysts could drive modest multiple expansion** Our Strong Buy rating is based on these potential near-term catalysts, which, as real measures of operating progress, should limit downside (execution) risk and drive early multiple expansion. HEALTHSOUTH's current risk/reward profile, in our view, is favorable, both on an absolute basis and relative to the comparable hospital peer group. Our 12-month price objective of $11 implies an EV/EBITDA multiple valuation of 6.8 times our 2000 forecast, still a discount to the peer group average.
2/16/00*	Capek Stong Buy	Summary: Yesterday, HEALTHSOUTH's chairman and CEO, Richard Scrushy, provided an in depth overview into the company's long-term growth prospects and near-term benchmarks. Management confirmed our expectations for improved collection trends in the fourth quarter, and solid cash flow and operating stability. The presentation and break-out session also provided insight into recent outpatient business line restructuring and longer-term asset efficiency initiatives centered around purchasing, electronic claims/corrections, and web-based incremental volume growth. We reiterate our Strong Buy rating .... Highlights: • Richard Scrushy's presentation and question and answer sessions focused on the sizable asset base that the company has developed over the past 15 years, and leverage opportunities that such a base provides. * * * • Nearer-term the company's recently announced initiative with and equity investments in MedcenterDirect.com should yield improved purchasing compliance and savings. Such developments are incremental to our current forecasts, and in our view, could help drive valuation, once confidence is restored in pricing, utilization and collection trends.

3/7/00*	Capek Strong Buy	HRC: ENCOURAGING 4Q RESULTS, RAISING ESTIMATES, REITERATE STRONG BUY Summary: HRC reported encouraging 4Q99 results .... Strong sequential volume trends drove quarterly revenues ahead of our expectations, while operating margins were in line with our expectations. Strong 6-day improvement in the A/R collections cycle (excluding charges) helped free up about $60 million in cash flow, which we believe went toward buying back stock. Share buyback activity was stronger than expected and combined with the favorable utilization trends, allowed for the upside to our forecast. Reflecting the 4Q99 results and ongoing sequential momentum, we are raising our 2000 EPS estimate to $0.70 from $0.66 and our 2001 estimate to $0.82 from $0.77. We reiterate our Strong Buy rating .... Highlights: • HRC reported 4Q99 and fill-year operating results .... Net revenue growth was stronger than expected and operating margins were in line with our forecast.... • Sequential comparisons help support our view that 4Q99 results represent a turning point for the company. Based on the stronger sequential volume trend, stabilizing operating margin, reduced share base, and strong balance sheet position, we have raised our 2000 and 2001 EPS forecasts. * * * • We estimate that A/R collections improved by 6 days from 3Q99, with days in sales outstanding (DSOs) reaching 94 days, before the expected write-down. This marks the first DSO improvement in seven quarters and points to the company's business re-alignment and local-level accountability initiatives taken over the past six months. This DSO trend should continue to improve by 6-10 days in 2000, aided by management efforts and electronic initiatives just beginning to ramp up. * * * EBITDA margins [of 25.8% posted in the quarter] should improve sequentially, toward the 27% [level], ... aided by stabilized pricing, collection improvements, purchasing and electronic patient data and billing initiatives, and strong organic volume trends.

		* * * The company recorded net charges of $204 million in 4Q99, in line with a previously disclosed range (actually about $25 million short of the high-end of the range). Of this charge, $140 million was related to A/R writeoffs, $121 million to asset impairment/site consolidation charges, and the remaining $69 million to Y2K and consolidation expenses, and equipment and investment write-downs; all of this netted against $117 million tax benefit and $10 million passed onto minority joint venture partners.
4/26/00*	Capek Strong Buy	HRC: ENCOURAGING 1Q RESULTS, RAISING ESTIMATES, REITERATE STRONG BUY Summary: HRC reported 1Q00 results that were $0.01 ahead of our and consensus EPS estimates. Strong sequential volume and revenue gains combined with better-than-expected operating margins to drive EPS results.... All of this should help set the stage for EPS momentum in 2H00 and helps form the basis of our Strong Buy thesis. We have carried 1Q00 results through the full year and raised our 2000 EPS estimate to $0.71 from $0.70 and our 2001 estimate to $0.83 from $0.82.... Highlights: • HRC reported 1Q00 EPS of $0.17, versus $0.26 a year ago and the $0.16 posted in 4Q99. These earnings results were $3.6 million ($0.01 per share) ahead of our forecast. Net revenue was $13 million ahead of our expectation and driven by stable pricing and stronger volume gains. These, combined with ongoing management initiatives, helped drive operating margins that were 30 basis points better than our forecast. • In our view, sequential comparisons reinforce our view that the company is in the early stages of an operating turnaround, one that should yield accelerating momentum throughout the year. We believe there is upside to our 2000 estimates, similar in magnitude to today's results, based on stronger sequential volumes, stabilized pricing and operating margin, reduced share base, strong balance sheet, and increasing contributions from cost-cutting, restructuring and collections programs. * * * • Operating income EBITDA for the quarter reached $270 million, up 5% sequentially and $7 million ahead of our forecast. The strong volume gains helped bolster margins, as

		did cost-savings and collections/recontracting initiatives that allowed for CG&A and bad debt expense betterment. The EBITDA margin of 26.4% posted in the quarter should improve sequentially, toward the 27% level. • We believe the shares of HRC remain undervalued relative to peer group comparisons and the company's own cash flow generation potential over the next few years. The shares are trading at 5.5x our 2000 EBITDA forecast, versus a (hospital) peer group average of 7.4x. We expect ongoing DSO improvement and sequential revenue, margin and EPS gains to drive investor interest. A transition to 2001 valuation and the company's meeting (slightly beating) near-term operating expectations should drive share price appreciation and our $11 price objective. Our price objective implies 6.6x 2000 and 6.2x 2001 EBITDA valuation. * * * Margin expansion opportunity toward yearend The company is engaging in a number of cost-saving initiatives that should provide margin expansion opportunity in 2H00 and 2001, including e-commerce and supplies procurement initiatives that could save the company (annualized) $50-$100 million over the course of the next year.
1/11/01*	Capek Strong Buy	HRC: OPERATING STRENGTH AND SECTOR MOMENTUM; RAISING PRICE TARGET Summary: We've raised our 12-month price objective on HRC (our top pick for 2001) to $24 from $15. We expect renewed operating strength (volume and pricing) .... Normal operating momentum and potential benefits from inpatient rehab PPS lend upward bias to 2002 EPS, and perhaps late 2001. We find it hard to find another marketshare, cash flow, balance sheet, and earnings profile as attractive as that of HRC's. Our EPS estimates remain $0.71 for 2000 and $0.83 for 2001. Highlights: • We've raised our 12-month price objective on HRC .... As we look to the full year 2001, we expect business strength, the company's return to "predictable operator" status, peer group leadership, and potential upside to EPS estimates in late 2001 and 2002 to drive multiple expansion. * * * • 4Q00 results should provide evidence of commercial pricing

		stability in the outpatient rehabilitation and outpatient surgery segments (combined roughly 43% of HRC's net sales). On this stable backdrop, we expect volume to continue sequentially improving, returning to 4-6% growth by 2H01. • The inpatient rehabilitation business, in our view, hold [sic] meaningful upside opportunity, as HRC focuses on increasing occupancy rates (78% today, up to perhaps 85% by early 2002) and implementing Medicare's rehabilitation PPS. We estimate these initiatives separately can add $0.10 and $0.16 in annualized EPS, respectively. This upside potential (realizable in part in 2002) is yet reflected in expectations. * * * • Finally, the already solid balance sheet and cash flow picture could be potentially enhanced by one-off asset sales (to which the company has alluded). We expect HRC could sell a portion of its inpatient hospitals (which we estimate generate $280 million in revenue and $55 million in EBITDA). Assuming HRC can get a 10 multiple of EBITDA and sells $15-20 million in EBITDA, this would be $150-200 million in gross proceeds. • In summary, we find it is hard to find as compelling a growth and return profile as that of HRC's. We believe near-term sequential and year-over-year operating momentum will maintain stock price momentum, and the potential upside for 2002 will bridge the transition to a 2002 EBITDA multiple valuation by late 3Q01. * * * Medicare PPS In our view, based on published final Medicare inpatient rehab PPS rates, HRC's existing cost per Medicare discharge, its acuity mix of patients (in line with industry averages), and the historic operating focus HRC has maintained in this business, we believe the shift to a PPS represents a margin opportunity. The company indicates that its average cost per discharge for Medicare impatient [sic] rehabilitation is below $9,600. This compares to industry average published case rates that should be in the $10,800 to $11,500 range. Using the $11,100 Medicare rate yields a potential pick-up per discharge to HRC of $1,400. We believe HRC's cost structure is predicated on its size, scale, centralized overhead function, acquired asset integration, and its higher overall occupancy levels. We do not believe this model is easily duplicable.

		We estimate that HRC currently has 70,000 Medicare discharges per year. Given the $1,400 per discharge in potential pick-up, HRC could add $98 million of incremental annualized pre-tax profit, once it is fully operating under the PPS (which likely won't be until May 2002). After-tax, HRC could realize an additional $62 million in net income ($0.16 in EPS) on an annualized basis. Based on our expectation that the inpatient rehabilitation PPS start-date gets pushed back until July 2001, we believe HRC can start realizing some of this profitability in 1Q02. Based on our estimate that 60% of its facilities roll onto PPS January 1, 2002 and the remaining 40% on June 1 2002, for the full year 2002, we believe the company can pick up $0.10 to $0.12 in incremental EPS.
2/6/01*	Capek Strong Buy	HRC: HIGHLIGHTS FROM THE HEALTHCARE SERVICES CONFERENCE Summary: Yesterday at the UBS Healthcare Services Conference, HealthSouth (HRC) Chairman and CEO Richard Scrushy, outlined the company's business prospects and the strong opportunities for growth. We remain confident in our 2000 and 2001 estimates of $0.71 and $0.83, respectively and view utilization and pricing increases as potential upside to our numbers. Highlights: We maintain our Strong Buy rating on HRC for this sector-leader with strong year-over-year operating momentum. * * * • HRC remains one of our top picks as we feel the growth and returns profile remains extremely compelling.
2/20/01*	Capek Strong Buy	[Projecting 2000 EPS of $0.71, 2001 EPS of $0.83.] HRC: REITERATE STRONG BUY IN LIGHT OF MISLEADING NEGATIVE NEWS Summary: A February 16 Bloomberg article highlights a $312 million jury award against HRC for a patient's injuries and death in a nursing home in 1997. In our view, the perhaps sensationalized headline overlooks the facts that HRC will appeal the award amount, has business insurance to cover such action, did not operate the facility at the time of the death, does not operate it now, and does not have nursing homes as part of its business model. We believe the unfortunate death, subsequent jury award, and final settlement will not impact HRC's operations or financials. We would use any stock price weakness caused

		by this news item as a buying opportunity and reiterate our $24 12-month price objective. * * * • We would use any stock price weakness caused by this news item as a buying opportunity. We find it hard to find as compelling a growth and return profile as that of HRC's in either healthcare services or the broader market. We believe near-term sequential and year-over-year operating momentum will maintain stock price momentum, and the potential upside for 2002 will bridge a smooth transition to 2002 EBITDA forecast valuations by late 3Q01. • HRC shares are currently trading at 8.2x our 2001 EBITDA forecast, compared to a peer group (hospital) forward valuation of 10x. Our price objective implies a multiple of 10.8x. Given HRC's business and growth profile, we believe a slight premium to group valuation is justifiable. We expect the shares can trade to $20 by mid-year (an implied 2001E EBITDA multiple in line with the peer group) and test our $24 price objective by late 2001 (based on 2002 forecasts). Analysis: Our investment thesis centers on the restored growth and profitability in HRC's core business (the turnaround is complete). We believe HRC has emerging [sic] from the trough in its operating cycle a wiser, more focused operator. As investors increasingly view HRC as a predictable operator in an attractive niche, supported by attractive balance sheet, case flows, cost structure, we believe they will give the company credit this positioning. HRC's market cap is close to $5 billion, far from peak valuations in early 1998, but again large enough and liquid enough to attract large mid-cap and small large-cap interest, in our view. The company, in our view, is experiencing greater trading and earnings volatility. We also believe healthcare providers generally offer investors safe-haven from broader market (especially technology sector) volatility, with solid pricing and utilization and predictable earnings. We believe HRC should benefit from such positioning. Finally, for the first time in several years, we can identify upside earnings potential over the next 18 months. On this backdrop, we recommend purchase of the shares.
3/7/01*	Capek Strong Buy	HRC: GREAT 4Q; BUY AMIDST SHARE VOLATILITY AND CAP-EX MISPERCEPTION Summary: HRC reported strong, in line 4Q00 EPS of $0.19, up 24% from

		4Q99. Better than expected revenue growth and operating margin gains (netted against higher interest expense and share count) paced results.... We reiterate our Strong Buy rating and $24 price target. Highlights: • HRC reported 4Q00 EPS of 0.19, up 24% from $0.16 in 4Q99 and in line with expectations. Full-year 2000 EPS were $0.71, versus $0.84 in 1999. We are maintaining our 2001 EPS estimate of $0.83 (consensus is $0.81) and introducing a $0.95 estimate for 2002. • 4Q results mark the 6th quarter of sequential and 2nd quarter of year-over-year revenue, volume, EBITDA and net income growth, the 2nd quarter of modest positive pricing, and the 1st quarter of positive year-over-year EBITDA margin comparisons. The operating turn-around, in our view, is complete, and we'd view HRC as a self-funding, 6-8% top line, 15% or more) EPS growth story. • Net revenue for 4Q00 increased by 7.6% to $1.08 billion, ahead of our $1.07 billion forecast. Positive unit growth across all four business segments, along with nice pricing improvements in two of the four segments drove growth. We expect mid-to-high single digit revenue growth (after divestitures) for 2001. • 4Q00 operating income (EBITDA) margin was 27.9%, 60 bps ahead of our forecast, and up 90 bps from 3Q00 and 190 bps from 4Q99. Margins benefited from accelerating volume, pricing, and stable operating costs. We expect margins to continue improving through the 28% level in 2001 * * * • We expect cap-ex for 2001 to return to the $400 million level. Moreover, we view the "extra" 4Q00 spending as opportunistic (breaking ground on 9 rehab hospitals, not coincidental to the governments publishing of the rehab PPS rates that should provide HRC with margin opportunity in 2002), carrying project returns of 18-25% (versus the 7.5% savings from debt reduction). * * * Analysis: Net revenue in the quarter reached $1.08 billion, an increase of 7.6% over 4Q99 results and $10 million ahead of our forecast.

		Positive unit growth across all four business segments, along with pricing improvements in three (although mainly outpatient rehab and surgery) of the four segments drove growth. Better than expected unit growth and pricing increases in HRC's outpatient rehabilitation segment and strong utilization in its diagnostic business drove the upside to our forecasts. Accelerating sequential volume gains and low-to-mid single digit pricing should drive results for 2001. Net of announced asset divestitures we still expect visible 5-7% revenue growth to maintain investor interest through the year. * * * Operating income or EBITDA for the quarter reached $300 million, $9 million ahead of our forecast and reflecting a 27.9% margin. Direct operating expenses improved to 65.9% of net sales, better by 120 basis points sequentially (and 40 basis points relative to our forecast) and 240 bps better from 4Q99. In addition to HRC's ability to manage salary/wage increases, we believe better pricing and the benefits from the business line re-alignment and electronic patient data and billing rollout continue to help margins. * * * Investment Thesis: Our investment thesis on HRC centers on the restored growth and profitability in HRC's core business (the turnaround is complete).... [W]e expect improving year over year EPS visibility, tangible returns on cap-ex of the past 18 months, and potential upside to late 2001 and 2002 EPS forecasts to bolster share price performance.... 1- The inpatient rehabilitation business, in our view, holds meaningful upside opportunity, as HRC focuses on increasing occupancy rates.... 2- Medicare's PPS rates for inpatient rehabilitation have been finalized. The methodology and average rates are in line with expectations, and in our estimation, represents a margin opportunity for HRC.... 3- The already solid balance sheet and cash flow picture could be potentially enhanced by one-off asset sales (a few already announced).... On a relative margin basis, each of these non-core sales will be "accretive" to existing operating margins.
4/27/01*	Capek	HRC: FINE 1Q RESULTS; THE BEST IS YET TO COME

	Strong Buy	Summary: HRC reported solid 1Q01 EPS of $0.19 up 12% from 1Q00 and in line with forecasts. Revenue growth of 7% was paced by an average 3-4% same-store volume gain across all businesses and a 3-6% pricing trend that should continue bolstering results through the rest of 2001. Modest operating margin gains and ongoing capital base efficiency helped drive 15% net income growth. Preliminary balance sheet and cash flow data were also encouraging.... We are maintaining our respective 2001 and 2002 EPS estimates of $0.83 and $0.95, and reiterate our Strong Buy .... Highlights: • HRC posted 1Q01 EPS of $0.19, up 11.6% from the $0.17 generated in 1Q00.... We are encouraged by the strong income statement and preliminary cash flow and balance sheet trends delivered by HRC and maintain our 2001 EPS estimate of $0. 83 (consensus estimate is $0.81) and our 2002 estimate of $0.95. • Net revenue for the quarter was in line with our $1.09 billion forecast and 7% growth expectation. Volume and pricing contribution varied slightly from our expectation by business segment. * * * • 1Q01 operating (EBITDA) margin was 27.3%, up 90 basis points from a year ago, but shy of our forecast by 50 bps, in our view, reflecting some seasonality and the H-CAP rollout. We continue to forecast a 28% EBITDA margin for the year, based on ongoing pricing and volume trends and infrastructure leverage. • Preliminary balance sheet and cash flow data were also encouraging. * * * Summary and Outlook By most every measure, HRC met or surpassed expectations. Same-store volume growth is reaching consistency, pricing remains strong (we argue in an early phase of a cycle), operating margins are benefiting from top line trends and a cost-focus that has always been an HRC trademark, and the capital base continues to rationalize (gain efficiency) through divestitures and organic growth development. Our investment

		thesis on HRC centers on this restored growth and profitability on the income statement, and renewed structural strength in the balance sheet and cash flow statement. Improvements within these three financial ledgers should drive ROIC acceleration and mid-teens earnings growth for several years.
5/22/01*	Capek Strong Buy	Early this morning HRC announced it has settled a lawsuit with the Dept of Justice (DOJ) for $7.9 million. The suit had alleged misallocation of costs (accounting treatment of property, plant and equipment or PP&E, not patient care, quality of care, or fraudulent billing issues) on Medicare cost reports from 1992 - 1997. As part of the settlement, HRC will enter into a corporate integrity agreement with the OIG, building on its existing solid corporate compliance program. Given the nature and magnitude of the alleged infractions (the settlement amounts of 0.1% of Medicare revenue generated by the firm during the time frame), we believe HRC's cooperation and settlement has been in the company's best interest. We reiterate our Strong Buy rating and 12-month price target of $24.
8/2/01*	Capek Strong Buy	HRC: STRONG 2Q, ALL PIECES COMING TOGETHER; REITERATE STRONG BUY Summary: HRC reported very strong and encouraging 2Q results, with operating EPS of $0.21, up 25% from 2Q00 and $0.01 better than our and Street expectations. The quarter highlighted continued solid revenue trends (pricing and volume growth) and better-than-expected operating margin gains, while the balance sheet and cash flow engine continued to catch up to the income statement, In our view, this development will continue through year-end, and help narrow the discount-to-peer group valuation at which the shares trade. By 2002, we expect inpatient rehab opportunity (arising from pending changes in Medicare reimbursement) to drive renewed EPS momentum and further differentiate HRC. We are maintaining our respective Street-high $0.83 and $0.95 EPS estimates for 2001 and 2002, respectively. Our 12-month price target is $24. Highlights: HRC posted 2Q01 EPS of $0.21, up 25% from $0.17 in 2Q00. Results were $0.01 ahead of our (and Street) forecast. We are maintaining our 2001 EPS estimate of $0.83 (borrowing $0.01 from 4Q) and our 2002 estimate of $0.95. * * * • 2Q EBITDA margin was 28.1%, up 150 bps from 2Q00,

		80bps sequentially and 20 bps ahead of our forecast. In our view, consistent volume/pricing trends, less relative wage pressure, strong collections, and productivity programs (H-CAP) are driving margins, which should remain trending into the 28-29% range. * * * We expect business strength (steady, strong volume and pricing growth), normal cap-ex levels, debt reduction, divestitures, and an upside bias to 2H01 and 2002 EPS to drive multiple expansion. Analysis: Net revenue in the quarter reached $ 1.099 billion, an increase of 6% over the $1.036 billion posted in 2Q00. * * * Moreover, with the start of Medicare's inpatient rehabilitation PPS (in January 2002), we believe HRC will be presented with a margin and census opportunity, which are not yet reflected in our forecasts. In our estimation, this represents an additional $0.15-$0.20 per share in annualized EPS that HRC can generate progressively in 2002 and 2003. With the final PPS rates and methodology due out by next week, we expect the company to be in a position to better represent its expectations by late 4Q01. Roughly 35% of HRC's 121 inpatient rehabilitation hospitals (7,656 beds) are on a fiscal year end December 31, an additional 7% have a fiscal year end during 1Q, 40% (largely the old Horizon assets) in 2Q, and the remaining 18% in 3Q. We believe that the firm's experience with PPS transition in its first 35% of assets during 1Q02 will largely determine if it opts to accept the full federal rate in the remaining facility. * * * Operating income or EBITDA for the quarter topped $308 million, just ahead of our $306 million forecast, and up 11.9% from 2Q00. Results reflect a 28.1% margin, up 150 bps from 2Q00, 80 bps sequentially and 20 bps ahead of our forecast. In our view, consistent volume/pricing trends, less relative wage pressure, strong collections, and productivity programs (H-CAP) are driving margins, which should remain trending into the 28-29% range. * * * Summary and Outlook

		By most every measure, HRC again met or surpassed quarterly expectations. Same-store volume growth is consistent, pricing remains strong (we argue in an early phase of a cycle), operating margins are solid and benefiting from top line trends and a cost-focus that has always been an HRC trademark. Moreover ... HRC continues to improve upon the renewed structural strength of its balance sheet.
10/29/01*	Capek Strong Buy	HRC: OKAY 3Q, MAINTAIN STRONG BUY, WITH KEY 4Q AND EVENTS NEAR-TERM * * * • We maintain our '01 EPS estimate of $0.83 (adding $0.01 to our new 4Q01 estimate of $0.23) and our 2002 estimate of $0.95. Near-term, pricing, utilization rebound and DSO reduction should pace results. For '02, we expect solid pricing, inpatient rehab occupancy gains and PPS opportunity to drive results and $0.10 or more pick-up to EPS.
12/12/01*	Capek Strong Buy	HealthSouth: Bumping Up EPS Estimates, Reiterate Strong Buy Summary: HRC provided upwardly revised guidance for 2002 EPS .... To reflect PPS and SFAS, we've raised our '02 EPS estimate to $1.15 from $0.95 and offer a preliminary '03 forecast of $1.35. We ... believe this news bodes well for share price momentum.
1/22/02*	Capek Strong Buy	Late on January 18, HRC announced it was notified that the Department of Justice has partly enjoined a whistle blower lawsuit against HRC, alleging that some physical therapy practices (mainly the use of teams of therapists and aides) violate Medicare regulations. HRC believes the allegations are without merit. Furthermore, we note that the practices in question are industry standard and covered by state-level regulation. We would view weakness in HRC shares on any related weakness from this news, which (sensationalism aside) we view as financially and operationally non-material, as a buying opportunity. We believe this lawsuit will be an open issue for some time, and although it could detract from sentiment, should not affect operations or results. We maintain our Strong Buy rating and $24 12-month price target. * * * [W]e believe the current DOJ enjoined portion of the lawsuit is without merit. • HRC's outpatient physical therapy Medicare revenue totals roughly $50 million per year (less than 1% of HRC's total

		annual revenue). Revenue attributed to extenders is a fraction of this $50 million revenue stream.
2/5/02*	Capek Strong Buy	HRC: Highlights from the Healthcare Services Conference Summary: Yesterday, HRC's Chairman & CEO Richard Scrushy gave an upbeat luncheon presentation at the UBS Warburg Global Healthcare Services Conference. Although he reiterated much of our existing growth outlook for the company, there are a few positive points to highlight regarding 4Q01 cash flow and year end momentum, 2002 inpatient rehab PPS experience, and the overall free cash flow picture. In addition, the company laid out its views regarding a recently announced DOJ investigation. We remain confident in both our 2001 and 2002 EPS estimates of $0.83 and $1.15 and reiterate our Strong Buy rating and $24 price target. Highlights: * * * • For 2002, the company said it was comfortable with free cash flow forecasts (excluding any contribution from asset sales) of $250-$300 million, a solid number which will enable the company to continue to pay down debt and maintain strategic investment spending. • With respect to Medicare's inpatient rehab PPS, HRC stressed that results were tracking exactly in line with their expectation, which underscores management's comfort in saying that PPS will be AT LEAST $0.07 additive to forecasts.
3/13/02*	Capek Strong Buy	HEALTHSOUTH: SOLID 4Q WITH BRIGHTER DAYS AHEAD Summary: HRC reported 4Q operating EPS of $0.22, in line with Consensus .... Strong same store volume growth and solid pricing drove operating results as EBITDA margin expanded 31 bps yoy. HRC continues to highgrade its portfolio.... We reiterate our Strong Buy rating and 12-month price objective of $24. Highlights: • HRC posted 4Q01 EPS of $0.22, up 13.5% from $0.19 in 4Q00.... We maintain our 2002 and 2003 EPS estimates of $1.15 and $1.35 as greater asset efficiency drives results.

		• Quarterly net revenue of $1.115 billion was ahead of our forecast and up 3.5% over 4Q00.... • Same-store revenue gains were driven by strong volume (outpatient rehab same-store volume was up 6% well ahead of the 1% growth seen over the past quarters) and solid pricing increases. We expect pricing momentum to carry continue in 2002 (supported by recently renegotiated contracts during the 1Q02) whilst volume growth remains strong. • 4Q EBITDA margin was 28.2%, up 31 bps from 4Q00 and 49 bps sequentially, despite a strong salesforce ramp. In our view, consistent volume/pricing trends and non-core asset divestitures are driving margins, which should remain in the 28-29% range in 2002. • All preliminary results from inpatient rehab PPS (which was implemented 1/1/02) have been better than anticipated. For the first two months of 2002, Medicare discharges at facilities converted to PPS are up an unprecedented 8% while reimbursement has been inline. Given the strong discharge trend, HRC should ramp occupancy to the 80% range (from the current mid-70% level) sooner than anticipated, driving margin and earnings growth.
5/3/02*	Capek Strong Buy	HRC: Same-Store Growth Highlights 1Q Results Summary • HRC reported 1Q operating EPS of $0.27, inline with our forecast and Consensus. Adjusting for divestitures, revenue was up 9% from a year ago, led by strong same store growth numbers from outpatient rehab (volume), surgery (volume) and inpatient rehab(volume and price). • Cash flow from operations was a solid $175 million and should accelerate as the remainder of the inpatient rehab facilities migrate to PPS, helping to drive significant margin expansion through 2002. Action • We reiterate our Strong Buy rating and $24 12-month price target as 1Q results were generally inline with our forecasts. We attribute the stock's lackluster performance yesterday to concerns about 1Q capex ($187 million) and view this weakness as a buying opportunity as we remain confident that management will prudently stick to their 2002 capex forecast of $400-$500 million and post stellar results in the coming

		quarters. Valuation • HRC shares are trading at 6.5x our '02 EBITDA forecast, versus the peer group average of 9.2x. Given fundamentals (pricing gains, volume growth, increased utilization, and PPS opportunity), we believe that this discount will narrow as HRC posts compelling operating results. Our 12-month price target of $24 implies an EBITDA multiple of 8.5x our '03 estimate (or PE multiple of 18 times our '03 forecast). Additional Information Net revenue in the quarter reached $1.13 billion, an increase of 9% over the year ago period after adjusting for asset divestitures. Strong same-store volume growth and solid pricing gains in the major business segments drove the revenue trend. We believe current volume trends will continue or improve through 2002 and are particularly pleased with the pricing increases on newly signed contracts which should be drive pricing up 4%-5%. By business line, inpatient rehabilitation (42% of new revenue) total discharges increased 4.9% from a year ago, aided by the strength of the first quarter under PPS. Revenue per patient was up 6.8% from a year ago, again reflecting the PPS transition. We believe the early PPS results are favorable and should produce at least the $0.07 EPS contribution that we originally forecasted. Outpatient rehabilitation (21% of net sales) visits reached 2.37 million in the quarter. This was up 7.9% from 1Q01, while same-store volume was up 7.9% as well. Revenue per visit in the 1Q increased to $99 per visit, up from $96 a year ago. Net revenue for this business unit was $235 million, up 11% from the $211 million a year ago. We continue to believe low-to-mid single digit volume growth, supported by surgery case growth, will be sustained through 2002. Surgery center (23% of net sales) cases reached 227,785 in 1Q02, up 3.6% from a year ago. Adjusting for facility closures, same-store cases were up about 6.5% as HRC added 111 new physician partnerships in the quarter, up from 93 in the 4Q01. New revenue per case was flat at $1,117 versus the year ago period. Overall, net surgery segment revenue was $254 million, up from $245 million a year ago despite having 11 fewer facilities. HRC's initiatives to increase physician partnerships are producing solid results as evidenced by the increased same store case volume, results that should only continue to improve through 2002.

		* * * EBITDA for the quarter was %328 million, reflecting a 29.1% margin, up 180 bps from a year ago, and slightly below our forecast with higher operating expenses accounting for the difference. Direct operating expenses improved to 65.2% of net sales, down 232 bps from 1Q01 (driven mainly by PPS). Bad debt expense (2.2% of net revenue) was inline with out forecast. Below the operating line, net interest expense of $47 million was slightly below our forecast as the company paid down $8 million in debt from the end of 4Q01 and we anticipate accelerated debt reduction in the coming quarters. * * * As well documented, the DOJ has partly enjoined an existing lawsuit (a qui tam or whistle blower lawsuit filed by a former employee) alleging that HRC has violated Medicare billing regulations for use of "extenders" in outpatient therapy centers (concurrent therapy). We believe the size of the billings in question (less than $20 million of HRC's total revenue of $4.4 billion) and the commentary from CMS on its final rule for SNF PPS (July 31, 2001), which stated that concurrent therapy does have a place in the care options, mitigates this risk.
7/18/02*	Capek Strong Buy	HRC: Announces small asset sale & related non-cash charge Summary: • HRC announced that it has (in June) sold five skilled nursing facilities (SNFs) in Massachusetts to a private nursing home operator. Reflecting the sale (we estimate $10 mm in cash), HRC will take a non-cash charge (estimated between $60-80mm) on SNFs. Such a charge is in addition to the non-cash charge we expected in 2Q02 to reflect SFAS 142 (about $70-120mm). HRC reports 2Q02 operating results on August 7, which we expect to be in line. Action: • In our view, this news is slightly positive because it generates some cash, eliminates negative margin assets from HRC's 1,900-facility base, and clarifies expectations (in a broad market already scrutinizing all corporate accounting actions). Annualized, the sale is under $0.01 accretive. We reiterate our Strong Buy rating and comfort with our $1.15 '02 and $1.35 '03 EPS estimates. • We do not believe recent HRC share weakness stems from these non-cash charges. Rather, we believe weakness reflects a combination of negative sentiment on management, poor fiscal

		(cap-ex) discipline, and lackluster ROIC on a backdrop of broad market and healthcare section selling pressure. We expect 2Q operating results to mark the start of stronger combined income statement and cash flow results (ongoing solid pricing and volume trends in outpatient segments, new profitability in inpatient rehab, thanks to Medicare PPS, and capex/working capital/DSO), a few quarters of which should bolster the share price. Valuation: • Shares are trading at a P/E multiple of 7.5x our '02 (6.5x our '03) EPS forecasts. We believe such valuation levels (50%-plus discount to most any relevant measure, including HRC's secular EPS growth rate of 15%, the S&P 50 forward P/E, and the broad hospital/provider based peer group forward P/E average of 20x '02 (17.5x '03) EPS forecasts. We expect cash flow, improving business returns and an upside bias to 2H02 EPS forecasts to drive a more rational valuation, in line with the aforementioned measures. As such, we expect the stock can retrace the mid-teens share price levels later in this year and achieve our 12-month target price of $24 (17.7x our '03 EPS forecast) by mid-2003.
8/8/02*	Capek Strong Buy	• HRC reported 2Q operating EPS of $0.28, up 33% from a year ago and in line with our forecast and Consensus. • The company posted solid, 6% net sales growth .... EBIT was up 30% (a 23% margin, it was up 20% ex-FAS142) demonstrating HRC's operating leverage. Action • Business gains and balance sheet changes bode very well for 3Q, potentially setting up a better-than-expected BPS and cash flow story. * * * Additional Information Net revenue in the quarter reached $1.16 billion, an increase of 9% over the year ago period after adjusting for asset divestitures.... We believe current volume trends will continue/improve in the 2H02 .... * * * EBITDA for the quarter was $347 million, reflecting a 29.8% margin, up 175 bps from a year ago and 40 bps ahead of our forecast with lower than anticipated direct operating expense accounting for the difference....

		... Operating cash flow was a healthy $235 million, up 43% from a year ago while free cash flow (excluding the purchase of the synthetic leases) was up 40% to $95 million. HRC exited the quarter with $525 million on the balance sheet.... Outlook We believe 2Q operating results mark the start of stronger combined income statement and cash flow results ... which should bolster the share price over the coming quarters.
8/27/02*	Capek Buy	HRC: Mixed news; lowering EPS estimates and rating to Buy Summary • HRC made several announcements his morning, the combination of which should have a mixed-to-negative effect on investors and the stock. Negatively, HRC said it has received a directive from CMS changing the way Medicare will reimburse for outpatient group (two or more patient) therapies. The potential negative impact, in our view, increases when we include commercial insurer rates that are based on Medicare fee schedules. HRC estimates a $175mm annualized reduction in pre-tax income ($0.27 in EPS) from this change. • On the positive side, the firm announced preliminary plans to spin/split out its outpatient surgery ($1b in sales, $265mm in EBITDA) unit. * * * **CMS Changes the Rules** According to HRC's press release, the Centers for Medicare and Medicaid Services (CMS) has issued a directive to Medicare Part B carriers (entities that pay healthcare providers on behalf of Medicare) that requires them to reimburse providers under "group therapy" rates for any therapy delivered to two or more patients concurrently, regardless of difference in activity/therapy for each patient. This directive would lower net reimbursement to providers that historically have typically been reimbursed individually for each patient's therapy. Exacerbating the exercise of quantifying the downside from this change is the fact that commercial insurance rates are often based on Medicare outpatient fee schedules and coding policies. For now, given the moving parts, we will take HRC's assessment at face value. As has been well documented, the Department of Justice (DOJ) has party enjoined an existing lawsuit (a qui tam or whistle blower lawsuit filed by a former employee) alleging that HRC

		has violated Medicare billing regulations for use of "extenders" in outpatient therapy centers (also called concurrent therapy). With CMS's directive, we expect the qui tam lawsuit to be moot. What has not changed, in our view, however, is the conflicting commentary from CMS on its final rule for skilled nursing facility (SNF) PPs (July 31, 2001) and inpatient treatment guidelines, which stated that concurrent therapy does have a place in the care options, significantly clouds the issue on concurrent therapy in the outpatient setting. We expect HRC and the industry to explore clarification on and ask for further justification of such rule action by CMS.
9/23/03*	Capek Buy	Healthsouth: Heavy and Mixed News Flow; Maintain Buy Rating • Amidst a swirl of "what if's," business retooling, business separation, and investigations and reviews (that have to weigh on management focus), we maintain our 2002 EPS estimate of $1.00 and our 2003 estimate of $1.08 ($0.87 ex-surgery business). We also offer sensitivity to our forecasts, on a quarterly basis: every 10bps of operating expense (higher SG&A, bad debt, etc.) lowers net income by $6.6mm ($0.015 per share), every $10 million in sales represents $0.005 in EPS, and a $300mm in debt/equity buyback is $0.01 in EPS pick-up. Net, net, given a number of moving parts, we believe current EPS estimates are within 5% of "worst case." * * * **Valuation** • In our view, the balance sheet, cash flow (we estimate $730mm in operating cash flow and $220mm of free cash flow for 2003 pre-surgery center spinout), credit capacity and earnings support an $8 valuation of HRC (the remaining company, post surgery center spinout), based on 10x our 2003 EPS estimate (six times our 2003 EBITDA estimate).
11/6/02*	Capek Buy	• [HRC's] remaining business segments showed resilience paced by 12% growth in inpatient rehab hospital revenue (45% of total) and 5% growth in surgery center revenue). Despite higher DSOs, relatively healthy operating cash flow of $141mm and credit line capacity allowed the firm to repurchase $440mm of its debt (including $214mm convertible sub debt due April 2003) and $30 million in stock and end the quarter with $390mm in cash. **Action**

		• We maintain our Buy rating on HRC shares .... For 2002, our EPS estimate is $0.78, down from $1.00 and for 2003, our (trough) EPS estimate is $0.59, down from $1.08. We believe 3Q earnings can be used as a floor for operating trends (more than likely extending through 4Q), while cash flow, debt/equity repurchases, any insight into the SEC or DOJ billing investigation could provide catalysts to drive the stock slightly higher (at the very least allow it to rebase itself) by year-end. **Valuation** • In our view, the balance sheet, cash flow (we estimate $558mm of operating cash flow and $140mm of free cash flow for 2003), credit capacity and earnings support an $8 valuation of HRC, based on 13.6x our 2003 EPS estimate (6x our $1b '03 EBITDA estimate, adjusted for minority interest).... **A Change of Plans** • In mid-October, HRC announced that it had suspended plans to pursue a tax-free separation of its surgery center division. HRC management says this decision was reached, in part on investor/lender commentary. • By shelving the spinout, we believe HRC removes uncertainty of potential balance sheet and liquidity constraints in 2003 (which may have arisen when HRC would have had to compensate bond (covenant) holders to allow the spinout).
1/7/03*	Capek Buy	• We maintain our Buy rating and $8 price target ... * * * ...HRC also announced ... its plan to reduce corporate, general and administrative (CG&A) expenses by 18% in 2003 .... * * * ...We expect the firm to be able to reduce net debt by $220mm and exit the year with $250mm in cash on the balance sheet.
3/14/03*	Capek Buy 2	• Charges and asset consolidation aside, HRC generated mixed-to-positive volume growth in 4Q, paced by 5.7% and 2.9% same-store gains in its respective inpatient rehab and outpatient surgery segments, which offset flat diagnostic procedures and a marked reduction in outpatient rehab visits. • We expect that the site consolidations, cost-cutting programs, management bonus and salary concessions, and impaired asset (including A/R) charges should portend fiscal discipline and more prudent capital allocation and needs in 2003.

		Action • We maintain our Buy 2 rating on HRC shares and 12-month price target of $8. Our 2003 EPS estimate remains $0.55, and we're starting an '04 estimate of $0.60 (up 8% on 3.5% sales growth). • In our view, 4Q02 was an important low-water mark for HRC. On the backdrop of modest (3-5%) expected growth in 70% of HRC's business (inpatient rehab and outpatient surgery), 1Q03 margin should benefit from recent cost-cutting, site closures, and accelerated charges. By 2H03, we expect outpatient rehab and diagnostics to stabilize. In the interim, the sequential ramp in 1Q03 estimated EPS ($0.13 up from $0.05) should establish base-line business confidence.

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